

# Third Quarter Report

as of September 30, 2007

October 25, 2007



## Highlights Q3 2007

- 1) Revenue of CHF 35 million and net income of CHF 23 million.
- 2) Sale of all properties held in Belp completed.
- 3) Upcoming events:
  - a) Presentation of the hypertension vaccine CYT006-AngQb at the American Heart Association Scientific Sessions 2007
  - b) Company presentation at the Natixis Securities "Conférence Midcaps Santé"
  - c) Company presentation at the JPMorgan Healthcare Conference 2008

		YTD 2007*	YTD 2006*	Q3 2007	Q3 2006
Net revenue	CHF mio	35.6	0.5	35.2	0.2
Net operating costs	CHF mio	34.0	27.1	11.9	9.3
Net income/(loss)	CHF mio	3.5	(26.2)	22.9	(9.0)

  

		Sept 30, 2007	Dec 31, 2006
Cash & financial assets	CHF mio	114.5	44.5
Full-time employees	number	128	127

\*YTD = year to date January 1 – September 30

**1) Revenue of CHF 35 million and net income of CHF 23 million**

The up-front payment of CHF 35,0 million from the collaboration with Novartis on the vaccine against nicotine addiction NIC002 generated the first profitable quarter with net income of CHF 22,9 million since the listing of Cytos Biotechnology at the SWX Swiss Exchange.

As a consequence of the up-front payment and the issuance of the CHF 70 million convertible bond in the first quarter of 2007, Cytos Biotechnology has cash and financial assets amounting to CHF 114.5 million. Hereby, the company is well funded, having secured its financing into the year 2010, not taking into account further revenue streams or variations to the present financial plan.

Revenues increased from CHF 0.2 million in the third quarter 2006 by CHF 35.0 million to CHF 35.2 million in the third quarter 2007 due to the payment of the up-front fee mentioned above. Year to date revenues increased from CHF 0.5 million in the first nine months of 2006 by CHF 35.1 million to CHF 35.6 million in the first nine months of 2007. The fluctuation in revenues is not uncommon to biotech companies as the revenues are often linked to up-front fees, milestones and license payments as well as income for delivery of drug substance, which may occur sporadically.

Net operating costs increased from CHF 9.3 million in the third quarter 2006 by CHF 2.6 million to CHF 11.9 million in the third quarter 2007. Year to date operating costs increased from CHF 27.1 million in the first nine months of 2006 by CHF 6.9 million to CHF 34.0 million in the first nine months of 2007 due to extended activities in product development, especially process development and development of large-scale GMP manufacturing (GMP = Good Manufacturing Practice) of the carriers Qb and QbG10, which are the basis for the further development of the Immunodrugs™.

Research and development costs increased by CHF 6.8 million in the first nine months of 2007 due to the the same reasons as above mentioned, while sales and marketing and general and administrative costs increased by CHF 1.0 million from CHF 3.4 million in the first nine months of 2006 to CHF 4.4 million in the first nine months of 2007 primarily due to additional costs related to the negotiation and signing of the license agreement with Novartis.

Net income in the third quarter 2007 was CHF 22.9 million which compares to a net loss in the third quarter 2006 of CHF 9.0 million. Net income in the first nine months of 2007 was CHF 3.5 million in comparison to a net loss in the first nine months of 2006 of CHF 26.2 million.

The cash used for operating activities as calculated based on the Cash Flow Statement was CHF 3.8 million per month in the first nine months of 2007 and therefore within managements guidance of a monthly gross burn rate of CHF 3.6 million – CHF 4.0 million per month for the full year 2007.

## 2) Sale of all properties held in Belp completed

In the course of the acquisition of Askia Holding AG in October 2002, Cytos Biotechnology became owner of properties in Belp, Switzerland. Cytos Biotechnology planned to sell all the properties on the short - medium term. In the third quarter 2007, the sale of all properties was completed. In total, Cytos Biotechnology receives proceeds of CHF 18.8 million for the properties.

## 3) Upcoming events

### **a) Presentation of the hypertension vaccine CYT006-AngQb at the American Heart Association (AHA) Scientific Sessions 2007**

Prof. Dr. med. Juerg Nussberger, CHUV, Lausanne, Switzerland, will discuss the novel hypertension vaccine CYT006-AngQb on Tuesday, November 6 at 9.45 am (EST); oral abstract session Clinical Hypertension. The AHA Scientific Sessions is one of the most renowned scientific events in the field of cardiology and will take place in Orlando, Florida, USA, November 4-7, 2007.

### **b) Company presentation at the Natixis Securities "Conférence Midcaps Santé"**

CFO Jakob Schlapbach will present the company and its R&D programs at this conference taking place at "Les Salons France Amériques" in Paris, France, on November 15, 2007.

### **c) Company presentation at the JPMorgan Healthcare Conference 2008**

CEO Dr. Wolfgang A. Renner will present the company and its R&D programs at this conference taking place in the "Westin St. Francis Hotel" in San Francisco, USA, from January 7 - 10, 2008.

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## Cytos Biotechnology AG and subsidiaries

Consolidated Balance Sheet as of in TCHF	Note	September 30, 2007	December 31, 2006
Current assets:			
Cash and cash equivalents		36,507	9,149
Financial assets	7	68,000	18,000
Trade and other receivables		3,752	845
Real estate inventories	9	–	14,124
Prepayments		2,287	2,378
<b>Total current assets</b>		<b>110,546</b>	<b>44,496</b>
Long-term assets:			
Property and equipment, net	8	11,307	12,575
Financial assets	7	10,000	0
Pension assets		310	310
Investment in associates		31	31
<b>Total long-term assets</b>		<b>21,648</b>	<b>12,916</b>
<b>Total assets</b>		<b>132,194</b>	<b>57,412</b>
Current liabilities:			
Trade accounts payable		894	3,008
Loans payable	7	–	132
Other current liabilities		1,106	664
Accrued expenses and deferred revenue		5,113	4,590
Provisions		233	157
<b>Total current liabilities</b>		<b>7,346</b>	<b>8,551</b>
Long-term liabilities:			
Loans payable	7	–	1,088
Convertible bond - liability component	10	57,813	–
Provisions		2,905	1,873
<b>Total long-term liabilities</b>		<b>60,718</b>	<b>2,961</b>
Shareholders' equity:			
Share capital	3	526	517
Legal reserves		136	136
Additional paid-in capital		204,106	197,684
Convertible bond - equity component	10	8,429	–
Treasury shares		(134)	(46)
Accumulated deficit		(148,933)	(152,391)
<b>Total shareholders' equity</b>		<b>64,130</b>	<b>45,900</b>
<b>Total liabilities and shareholders' equity</b>		<b>132,194</b>	<b>57,412</b>

*See accompanying notes which are an integral part of these consolidated condensed interim financial statements.*

## Cytos Biotechnology AG and subsidiaries

<b>Consolidated Income Statement</b>		Nine months ended	Nine months ended	Three months ended	Three months ended	
in TCHF (except for share information)		Note	Sep 30, 2007	Sep 30, 2006	Sep 30, 2007	Sep 30, 2006
Research and collaboration revenues	4/12	35,619	470	35,224	194	
<b>Total revenues</b>		<b>35,619</b>	<b>470</b>	<b>35,224</b>	<b>194</b>	
Research and development		(30,869)	(24,135)	(10,716)	(8,437)	
Sales and marketing		(1,162)	(643)	(256)	(183)	
General and administrative		(3,205)	(2,768)	(1,051)	(922)	
Other income/(expenses), net		1,243	436	152	239	
<b>Net operating costs</b>		<b>(33,993)</b>	<b>(27,110)</b>	<b>(11,871)</b>	<b>(9,303)</b>	
<b>Operating income/(loss)</b>		<b>1,626</b>	<b>(26,640)</b>	<b>23,353</b>	<b>(9,109)</b>	
Financial income		1,482	484	673	132	
Financial expense		(2,642)	(60)	(1,094)	(17)	
<b>Income/(loss) before tax</b>		<b>466</b>	<b>(26,216)</b>	<b>22,932</b>	<b>(8,994)</b>	
Deferred tax income convertible bond	10	2,992	-	-	-	
<b>Net income/(loss)</b>		<b>3,458</b>	<b>(26,216)</b>	<b>22,932</b>	<b>(8,994)</b>	
Basic net earnings/(loss) per share	5	0.66	(5.10)	4.36	(1.74)	
Diluted net earnings/(loss) per share	5	0.64	(5.10)	4.15	(1.74)	
Weighted average number of shares used in computing basic net earnings/(loss) per share		5,222,734	5,135,931	5,257,963	5,154,801	
Weighted average number of shares used in computing diluted net earnings/(loss) per share		5,395,656	5,135,931	5,796,568	5,154,801	

*See accompanying notes which are an integral part of these consolidated condensed interim financial statements.*

## Cytos Biotechnology AG and subsidiaries

Consolidated Statement of Cash Flows in TCHF	Note	Nine months ended Sept 30, 2007	Nine months ended Sept 30, 2006
Cash flow from operating activities:			
Income/(loss) before tax		466	(26,216)
Depreciation and amortization		2,143	2,089
Share option compensation cost	6	1,085	2,293
Outflow for cash settled options		(792)	(410)
Other financial cash flow items		118	(593)
Changes in assets and liabilities		(2,028)	3,037
<b>Net cash (used in)/provided by operating activities</b>		<b>992</b>	<b>(19,800)</b>
<b>Net cash (used in)/provided by investing activities</b>		<b>(44,900)</b>	<b>21,377</b>
<b>Net cash (used in)/provided by financing activities</b>		<b>71,244</b>	<b>3,939</b>
Net effect of currency translation on cash		22	1
Net increase/(decrease) in cash and cash equivalents		27,358	5,517
Cash and cash equivalents, beginning of period		9,149	11,469
<b>Cash and cash equivalents, end of period</b>		<b>36,507</b>	<b>16,986</b>
<i>See accompanying notes which are an integral part of these consolidated condensed interim financial statements.</i>			

**Consolidated Statement of Change in Shareholders' Equity**

in TCHF (except for share information)

	Numbers of shares	Share capital	Legal reserves	Additional paid-in capital	Convertible bond - equity component	Treasury shares	Accumulated deficit	Cumulative translation adjustments	Total
<b>January 1, 2006</b>	<b>5,086,993</b>	<b>509</b>	<b>136</b>	<b>191,506</b>	-	<b>(298)</b>	<b>(117,622)</b>	<b>(220)</b>	<b>74,011</b>
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	-	2	2
Income/(Loss) for the year	-	-	-	-	-	-	(26,216)	-	(26,216)
Total recognized income/(loss)									(26,214)
Issuance of share capital	78,868	8	-	3,814	-	-	-	-	3,822
Net movement of treasury shares	-	-	-	374	-	246	-	-	620
Share option compensation cost	-	-	-	962	-	-	-	-	962
<b>September 30, 2006</b>	<b>5,165,861</b>	<b>517</b>	<b>136</b>	<b>196,656</b>	-	<b>(52)</b>	<b>(143,838)</b>	<b>(218)</b>	<b>53,201</b>
<b>January 1, 2007</b>	<b>5,174,188</b>	<b>517</b>	<b>136</b>	<b>197,684</b>	-	<b>(46)</b>	<b>(152,174)</b>	<b>(217)</b>	<b>45,900</b>
Net income/(expense) recognized directly in equity	-	-	-	-	-	-	-	-	-
Income/(Loss) for the year	-	-	-	-	-	-	3,458	-	3,458
Total recognized income/(loss)									3,458
Issuance of share capital	87,076	9	-	4,722	-	-	-	-	4,731
Share issuance costs	-	-	-	(44)	-	-	-	-	(44)
Issuance of convertible bond - equity component	-	-	-	-	11,788	-	-	-	11,788
Transaction costs - convertible bond (allocation to equity)	-	-	-	-	(367)	-	-	-	(367)
Deferred tax - convertible bond	-	-	-	-	(2,992)	-	-	-	(2,992)
Net movement of treasury shares	-	-	-	42	-	(88)	-	-	(46)
Share option compensation cost	-	-	-	1,702	-	-	-	-	1,702
<b>September 30, 2007</b>	<b>5,261,264</b>	<b>526</b>	<b>136</b>	<b>204,106</b>	<b>8,429</b>	<b>(134)</b>	<b>(148,716)</b>	<b>(217)</b>	<b>64,130</b>

See accompanying notes which are an integral part of these consolidated condensed interim financial statements.

**1) Organization**

Cytos Biotechnology AG (the "Company"), a public Swiss biotechnology company, and its subsidiaries (together the "Group") specialize in the discovery, development and commercialization of a new class of biopharmaceutical products – the Immunodrugs™. Immunodrugs™ are intended for use in the treatment and prevention of chronic diseases and aim at triggering the patient's immune system to induce specific antibody and targeted T cell responses to modulate chronic disease processes.

**2) Basis of preparation**

These consolidated condensed interim financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting". The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended December 31, 2006.

These consolidated condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2006.

For better readability the amounts in the Group's financial statements and notes are presented in thousand Swiss Francs (TCHF) unless stated otherwise.

**3) Shareholders' equity**

On March 26, 2007, the board of directors registered an increase of the share capital of the Company by CHF 8,719.50 and by 87,195 shares up to CHF 517,418.80 and 5,174,188 shares with a nominal value of CHF 0.10 each at the Commercial Register in the Canton of Zurich. This increase is a consequence of the exercised options by employees in 2006.

In the course of the first nine months of 2007, 87,076 options have been exercised by employees and consultants, which resulted in an additional capital increase as of September 30, 2007 by CHF 8,707.60 and by 87,076 shares with a nominal value of CHF 0.10 each.

The total net proceeds (exercise price times number of options exercised) for the issuance of share capital in the first nine months of 2007 amounted to CHF 3.9 million.

#### 4) Segment and geographic information

Primary reporting format – business segment

The Group operates in one segment focusing on the discovery, development and prospective commercialization of a new class of biopharmaceutical products that are intended for use in the treatment and prevention of chronic diseases. The Group's executive board reviews the profit or loss of the Group on an aggregated basis and manages the operations of the Group as a single operating segment. The Group currently derives its research and collaboration revenues from research and development collaborations with third parties.

Secondary reporting format – geographical segment

Research and collaboration revenues are attributable to individual countries and are based on the location of the customer, while the long-term assets and the liabilities are based on the location of the Group. All operating costs including research and development, sales and marketing, general and administrative, other operating income and expenses are generated in Switzerland. Management does not allocate the expenses to the individual countries where the company generated revenues.

The Group's geographic information is as follows:

in TCHF	January 1 – September 30, 2007				January 1 – September 30, 2006			
	CH	USA	Other	Total	CH	USA	Other	Total
Research and collaboration revenue	590	29	35,000	35,619	131	339	–	470
<b>Segment result</b>	<b>590</b>	<b>29</b>	<b>35,000</b>	<b>35,619</b>	<b>131</b>	<b>339</b>	<b>–</b>	<b>470</b>
Unallocated expenses				(33,993)				(27,110)
<b>Operating income/(loss)</b>				<b>1,626</b>				<b>(26,640)</b>
Financial income/(expenses), net				(1,160)				424
Deferred tax income convertible bond				2,992				–
<b>Net income/(loss)</b>				<b>3,458</b>				<b>(26,216)</b>
<b>Other information</b>				<b>September 30, 2007</b>				<b>September 30, 2006</b>
Assets				132,194				63,512
Liabilities				(68,064)				(10,311)
				<b>January 1 – September 30, 2007</b>				<b>January 1 – September 30, 2006</b>
Capital expenditure				876				1,628
Depreciation				2,143				2,089

## 5) Earnings/(Loss) per share

Basic and diluted earnings/(loss) per share have been computed based upon the weighted average number of common shares outstanding. Basic earnings/(loss) per share excludes any dilutive effects of options, shares subject to repurchase, warrants, and convertible securities. When outstanding options to purchase shares of common stock and shares resulting from the conversion right of the bond holders are antidilutive, they are excluded from the computation of the dilutive earnings/(loss) per share calculation.

## 6) Share option plans

The Company regularly grants share options to employees. Usually the share options are equity-settled; one plan is cash-settled. For equity settled plans, the fair value of the options is determined at the grant date based on the market price using the Black-Scholes Model. For cash settled plans, the fair value of the options is determined each period.

In November 2006, the board of directors approved a new share option plan ("SOP 2007"), according to which a total of 83,217 options were granted on January 8, 2007. Each option entitles the holder to purchase one share of the Company within five years after the grant date. Options can only be exercised after a vesting period of two years. In the case of a change of control the options become exercisable. The exercise price is CHF 117.83, corresponding to the average closing price of the shares during the first three trading days in the year 2007. Management is convinced this represents the best estimate of the fair value of the underlying common stock. This option plan is classified as equity settled.

For these share options the following assumptions were used applying the Black-Scholes Option Pricing Model:

Share option conditions and assumptions	SOP 2007
Nature of arrangement	Grant of share options
Grant date	08.01.2007
Number of options granted	83,217
Exercise price (CHF)	117.83
Share price at date of grant (CHF)	118.00
Contractual life (years)	5.0
Vesting period (years)	2.0
Settlement	Equity
Expected volatility (%)	39.5
Expected option life at grant date (years)	3.5
Risk-free interest rate p.a. (%)	2.7
Expected dividend	zero
Estimated fair value at grant date (CHF)	38.06
Expiry date	07.01.2012
Valuation model	Black-Scholes

For all share options granted the Group expensed TCHF 1,876 and TCHF 2,293 for the first nine months of 2007 and 2006, respectively.

## 7) Financial assets and liabilities

In the first nine months of 2007, fixed-term time deposits in the amount of CHF 48 million were paid back to the Group and have been reinvested together with the proceeds of revenues and financing activities according to the Group's financial plan.

End of March 2007, the Company redeemed early its outstanding loan of CHF 1.1 million.

## 8) Property and equipment

In the first nine months of 2007, the Group invested TCHF 876 into property and equipment.

## 9) Real estate inventories

Three prepurchase contracts for properties in Belp have been executed in the first quarter 2007. All of the remaining properties in Belp have been sold in the third quarter 2007.

Net proceeds including the last installment received in October 2007 amounted to CHF 16.1 million and a profit of CHF 1.0 million was reported as "Other income".

## 10) Long-term liabilities

In February 2007, the Company issued a 2.875% p.a. convertible bond with a nominal value of CHF 70 million. The bond matures in 5 years on February 20, 2012, and is convertible into the Company's shares at a conversion price of CHF 175. The values of the liability component and the equity conversion component were determined at issuance of the bond.

The fair value of the liability component, included in long-term liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in shareholders' equity.

Transaction costs associated with the issuance have been allocated proportionately to the liability and equity components.

### The convertible bond recognized in the balance sheet is calculated as follows:

	TCHF
Nominal value of convertible bond issued in February 2007	70,000
Equity component	(11,788)
Transaction costs allocated to liability component	(1,811)
<b>Liability component on initial recognition</b>	<b>56,401</b>
Interest expense	2,631
Interest paid	-
<b>Liability component at September 30, 2007</b>	<b>59,032</b>
thereof short term (included in accrued expenses)	1,219

Interest expense of TCHF 2,631 for the convertible bond has been recognized as "Financial expense" for the first nine months of 2007.

In conjunction with the issuance of the convertible bond, a deferred tax liability of CHF 3.0 million was recorded resulting from the initial recognition of the equity component of the convertible bond separately from the liability. This deferred tax liability was charged to equity. A deferred tax asset arising from net loss carryforwards was recorded in the same amount as the group had sufficient unused tax losses which could be utilized against those taxable temporary differences. As the deferred tax asset and liability relate to the same taxation authority and the same taxable entity, they were netted in the balance sheet. The recognition of the deferred tax asset has been recorded in "Deferred tax income" in the income statement.

## **11) Income taxes**

No income tax has been recorded as the Company has sufficient tax loss carryforwards that can be offset against income. Management does not expect a net income for the financial year 2007.

## **12) Research and collaboration revenues**

After receiving clearance under the Hart-Scott-Rodino Antitrust Improvements Act for the collaboration with Novartis on the vaccine against nicotine addiction NIC002, the Company invoiced an up-front fee of CHF 35 million, which was recognized as revenue in the third quarter 2007.

## **Disclaimer**

### **Cautionary Statement Regarding Forward-Looking Statements**

Certain statements in this Quarterly Report, including but not limited to, statements, estimates and projections of future trends and of the anticipated future performance of Cytos Biotechnology AG and its subsidiaries (together “the Group”) constitute “forward-looking statements”. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievement of the Group, or industry results, to differ materially from any future results, performance or achievement implied by such forward-looking statements. The forward-looking statements are based on the Group’s current beliefs and assumptions regarding a large number of factors affecting its business. Such beliefs and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Group. There can be no assurance that: (i) the Group has correctly measured or identified all of the factors affecting its business or the extent of their likely impact, (ii) the publicly available information with respect to these factors on which the Group’s analysis is based is complete or accurate, (iii) the Group’s analysis is correct or (iv) the Group’s strategy, which is based in part on this analysis, will be successful. Factors which affect the Group’s business include, but are not limited to, (i) general market, governmental and regulatory trends, (ii) competitive pressures, (iii) technological developments, (iv) effectiveness and safety of the Group’s technology and therapeutics, (v) uncertainty regarding outcome of clinical trials and regulatory approval process, (vi) management changes, (vii) changes in the market in which the Group operates and (viii) changes in the financial position or credit-worthiness of the Group’s customers and partners.

## Shareholder Information

### Stock exchange listings at SWX Swiss Exchange

Registered shares: Swiss Security No.: 1 102 521, (SWX:CYTN)  
Convertible bond 2012: Swiss Security No.: 2 906 073

### Share register

Aktienregister Cytos Biotechnology AG  
c/o Nimbus AG  
Postfach, CH-8866 Ziegelbrücke

### Capital structure

Number of registered shares (nominal value CHF 0.10)	5,261,264
Conditional capital	CHF 168,207
Authorized capital	CHF 200,000
Free float	92%

### Contacts

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Cytos Biotechnology AG is a public Swiss biotechnology company that specializes in the discovery, development and commercialization of a new class of biopharmaceutical products – the Immunodrugs™. Immunodrugs™ are intended for use in the treatment and prevention of common chronic diseases, which afflict millions of people worldwide. Immunodrugs™ are designed to instruct the patient's immune system to produce desired therapeutic antibody or T cell responses that modulate chronic disease processes. Taking advantage of the high flexibility of its Immunodrug™ platform, Cytos Biotechnology has built a pipeline of different Immunodrug™ candidates in various disease areas, of which six are currently in clinical development. The Immunodrug™ candidates are developed both in-house and in collaboration with Novartis and Pfizer Animal Health. Founded in 1995 as a spin-off from the Swiss Federal Institute of Technology (ETH) in Zurich, the company is located in Schlieren (Zurich). Currently, the company has 128 employees. Cytos Biotechnology AG has been listed on the SWX Swiss Exchange (SWX:CYTN) since October 2002.